

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Charter Township of Lowell, Michigan	County Kent
Audit Date March 31, 2005	Opinion Date May 31, 2005	Date Accountant Report Submitted To State: August 12, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 333 Bridge Street, N.W., Suite 600	City Grand Rapids	State MI	ZIP 49504
Accountant Signature 			

Charter Township of Lowell Kent County, Michigan

**Financial Report
with Supplemental Information
March 31, 2005**

Charter Township of Lowell

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Independent Auditor's Report

To the Members of the Township Board
Charter Township of Lowell
Kent County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund (General and Water and Sewer Funds), and the aggregate remaining fund information (Capital Project and Fiduciary Funds) of the Charter Township of Lowell, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund (General and Water and Sewer Funds), and the aggregate remaining fund information (Capital Project and Fiduciary Funds) of the Charter Township of Lowell, Michigan as of March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedule is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

May 31, 2005

A member of



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Charter Township of Lowell

Statement of Net Assets March 31, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 857,480	\$ 1,176,090	\$ 2,033,570
Receivables - Net (Note 4)	55,688	390,703	446,391
Internal balances	71,858	(71,858)	-
Restricted assets (Notes 3 and 8)	-	47,000	47,000
Capital assets - Net (Note 5)	1,562,100	2,048,311	3,610,411
Total assets	2,547,126	3,590,246	6,137,372
Liabilities			
Accounts payable	9,980	52,117	62,097
Accrued and other liabilities	1,461	6,752	8,213
Noncurrent liabilities (Note 7):			
Due within one year	-	80,129	80,129
Due in more than one year	-	677,408	677,408
Total liabilities	11,441	816,406	827,847
Net Assets			
Invested in capital assets - Net of related debt	1,562,100	1,290,774	2,852,874
Restricted:			
Cemetery perpetual care	12,034	-	12,034
Gypsy moth	95,187	-	95,187
Railroad acquisition project	30,000	-	30,000
Bond reserve	-	47,000	47,000
Unrestricted	836,364	1,436,066	2,272,430
Total net assets	<u>\$ 2,535,685</u>	<u>\$ 2,773,840</u>	<u>\$ 5,309,525</u>

Charter Township of Lowell

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions Capital Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 312,740	\$ 20,728	\$ -
Public safety	65,586	-	-
Public works	72,863	15,661	-
Legislative	6,338	-	-
Recreation and culture	54,735	1,000	18,584
Total governmental activities	512,262	37,389	18,584
Business-type activities - Water and sewer	436,943	604,996	-
Total primary government	<u>\$ 949,205</u>	<u>\$ 642,385</u>	<u>\$ 18,584</u>

General revenues:

- Property taxes
- State-shared revenues
- Unrestricted investment earnings
- Franchise fees
- Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - April 1, 2004

Net Assets - March 31, 2005

Statement of Activities
Year Ended March 31, 2005

Net (Expense) Revenue and Changes in Net		
Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
<hr/>		
\$ (292,012)	\$ -	\$ (292,012)
(65,586)	-	(65,586)
(57,202)	-	(57,202)
(6,338)	-	(6,338)
(35,151)	-	(35,151)
<hr/>		
(456,289)	-	(456,289)
<hr/>		
-	168,053	168,053
<hr/>		
(456,289)	168,053	(288,236)
118,574	-	118,574
360,167	-	360,167
28,475	-	28,475
15,541	-	15,541
20,992	30,158	51,150
<hr/>		
543,749	30,158	573,907
<hr/>		
87,460	198,211	285,671
<hr/>		
2,448,225	2,575,629	5,023,854
<hr/>		
<u>\$ 2,535,685</u>	<u>\$ 2,773,840</u>	<u>\$ 5,309,525</u>

Charter Township of Lowell

Governmental Funds Balance Sheet March 31, 2005

	General Fund (Major Fund)	Other Nonmajor Governmental Funds - Capital Project Fund	Total Governmental Funds
Assets			
Cash and investments	\$ 857,480	\$ -	\$ 857,480
Receivables - Net	55,688	-	55,688
Advances to Water Fund (Note 6)	71,858	-	71,858
Total assets	<u>\$ 985,026</u>	<u>\$ -</u>	<u>\$ 985,026</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 9,980	\$ -	\$ 9,980
Accrued and other liabilities	1,461	-	1,461
Total liabilities	11,441	-	11,441
Fund Balances			
Reserved for:			
Long-term receivable - Advance	71,858	-	71,858
Cemetery perpetual care	12,034	-	12,034
Gypsy moth	95,187	-	95,187
Railroad acquisition project	30,000	-	30,000
Unreserved, reported in General Fund	764,506	-	764,506
Total fund balances	973,585	-	973,585
Total liabilities and fund balances	<u>\$ 985,026</u>	<u>\$ -</u>	
Capital assets used in governmental activities are not financial resources and are not reported in the funds			<u>1,562,100</u>
Net assets of governmental activities			<u>\$ 2,535,685</u>

Charter Township of Lowell

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2005

	General Fund (Major Fund)	Other Nonmajor Governmental Funds - Capital Project Fund	Total Governmental Funds
Revenue			
Property taxes	\$ 118,574	\$ -	\$ 118,574
State sources	380,133	-	380,133
Licenses and permits	23,400	-	23,400
Charges for services	6,769	-	6,769
Interest income	28,205	270	28,475
Cemeteries	1,000	-	1,000
Cable TV	15,541	-	15,541
Miscellaneous	45,799	-	45,799
	<hr/>	<hr/>	<hr/>
Total revenue	619,421	270	619,691
Expenditures - Current			
General government	293,694	-	293,694
Public safety	81,521	-	81,521
Public works	72,863	-	72,863
Legislative	6,338	-	6,338
Recreation and culture	53,574	-	53,574
	<hr/>	<hr/>	<hr/>
Total expenditures	507,990	-	507,990
Other Financing Sources (Uses)			
Transfers in	42,491	-	42,491
Transfers out	-	(42,491)	(42,491)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	42,491	(42,491)	-
Net Change in Fund Balances	153,922	(42,221)	111,701
Fund Balances - Beginning of year	819,663	42,221	861,884
	<hr/>	<hr/>	<hr/>
Fund Balances - End of year	<u><u>\$ 973,585</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 973,585</u></u>

Charter Township of Lowell

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ 111,701**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation. This is the amount by which capital outlay in the current period exceeds depreciation (20,208)

Expense recognized in the prior year in the statement of activities that was recognized in the current period in the governmental funds 15,933

Revenue recognized in the prior year in the statement of activities that was recognized in the current period in the governmental funds (19,966)

Change in Net Assets of Governmental Activities **\$ 87,460**

Charter Township of Lowell

Proprietary Funds Statement of Net Assets March 31, 2005

	Enterprise Fund		
	Water	Sewer	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 648,465	\$ 527,625	\$ 1,176,090
Receivables - Net (Note 4)	264,360	126,343	390,703
Total current assets	912,825	653,968	1,566,793
Noncurrent assets:			
Restricted assets (Notes 3 and 8)	47,000	-	47,000
Capital assets (Note 5)	1,522,890	525,421	2,048,311
Total noncurrent assets	1,569,890	525,421	2,095,311
Total assets	2,482,715	1,179,389	3,662,104
Liabilities			
Current liabilities:			
Accounts payable	38,213	13,904	52,117
Advances from General Fund - Current (Note 6)	25,000	-	25,000
Accrued and other liabilities	6,752	-	6,752
Current portion of long-term debt (Note 7)	64,330	15,799	80,129
Total current liabilities	134,295	29,703	163,998
Noncurrent liabilities:			
Advances from General Fund - Net of current portion (Note 6)	46,858	-	46,858
Long-term debt - Net of current portion (Note 7)	590,609	86,799	677,408
Total liabilities	771,762	116,502	888,264
Net Assets			
Investment in capital assets - Net of related debt	867,951	422,823	1,290,774
Restricted	47,000	-	47,000
Unrestricted	796,002	640,064	1,436,066
Total net assets	<u>\$ 1,710,953</u>	<u>\$ 1,062,887</u>	<u>\$ 2,773,840</u>

Charter Township of Lowell

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2005

	Enterprise Fund		
	Water	Sewer	Total
Operating Revenue			
Sale of water	\$ 296,175	\$ -	\$ 296,175
Sewage disposal charges	-	150,601	150,601
Other charges for services	152,985	5,235	158,220
Total operating revenue	449,160	155,836	604,996
Operating Expenses			
Cost of water produced/purchased	157,137	-	157,137
Cost of sewage treatment	-	104,004	104,004
Billing and administrative costs	29,546	10,114	39,660
Depreciation and amortization	73,243	24,165	97,408
Total operating expenses	259,926	138,283	398,209
Operating Income	189,234	17,553	206,787
Nonoperating Revenue (Expense)			
Investment income	16,954	13,204	30,158
Interest expense	(34,288)	(4,446)	(38,734)
Total nonoperating revenue (expense)	(17,334)	8,758	(8,576)
Change in Net Assets	171,900	26,311	198,211
Net Assets - Beginning of year	1,539,053	1,036,576	2,575,629
Net Assets - End of year	<u>\$ 1,710,953</u>	<u>\$ 1,062,887</u>	<u>\$ 2,773,840</u>

Charter Township of Lowell

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2005

	Enterprise Fund		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 469,982	\$ 183,865	\$ 653,847
Payments to suppliers	(143,441)	(101,005)	(244,446)
Payments to employees	(24,153)	(10,114)	(34,267)
Net cash provided by operating activities	302,388	72,746	375,134
Cash Flows from Capital and Related Financing Activities -			
Principal and interest paid on capital debt	(114,734)	(22,662)	(137,396)
Cash Flows from Investing Activities - Interest received			
on investments	16,954	13,204	30,158
Net Increase in Cash and Cash Equivalents	204,608	63,288	267,896
Cash and Cash Equivalents - Beginning of year	490,857	464,337	955,194
Cash and Cash Equivalents - End of year	<u>\$ 695,465</u>	<u>\$ 527,625</u>	<u>\$ 1,223,090</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 648,465	\$ 527,625	\$ 1,176,090
Restricted investments (Note 8)	47,000	-	47,000
Total cash and cash equivalents	<u>\$ 695,465</u>	<u>\$ 527,625</u>	<u>\$ 1,223,090</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 189,234	\$ 17,553	\$ 206,787
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	73,243	24,165	97,408
Changes in assets and liabilities:			
Receivables	20,822	28,029	48,851
Accounts payable	13,696	2,999	16,695
Accrued and other liabilities	5,393	-	5,393
Net cash provided by operating activities	<u>\$ 302,388</u>	<u>\$ 72,746</u>	<u>\$ 375,134</u>

Noncash Investing and Financing Transactions - For the year ended March 31, 2005, there were no noncash investing or financing transactions.

Charter Township of Lowell

Fiduciary Funds Statement of Assets and Liabilities March 31, 2005

Assets - Cash and cash equivalents (Note 3)	<u><u>\$ 41,380</u></u>
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Liabilities - Escrow deposits	<u><u>\$ 41,380</u></u>
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Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Lowell, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Lowell, Michigan:

Reporting Entity

The Charter Township of Lowell, Michigan is governed by an elected seven-member board. The accompanying financial statements present the activities of the Township. There are no component units to be included in these financial statements in accordance with accounting principles generally accepted in the United States of America.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability, when applicable.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, and expenditures relating to compensated absences are recorded only when payment is due.

The Township reports the following major governmental fund:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from property taxes, state-shared revenue, and other sources.

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following major proprietary funds:

Water and Sewer Funds - The Water and Sewer Funds account for the activities of the water distribution system and the sewage distribution system. These funds are financed primarily by a user charge for the provision of those services.

Additionally, the Township reports the following fund types:

Fiduciary Funds - Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. These include the Trust and Tax Funds. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Nonmajor Governmental Fund - The nonmajor governmental fund consists of the Capital Improvement Fund. This fund is used to account for the development of capital facilities other than those financed by the operations of an Enterprise Fund. This project has been completed and the fund was closed in the current year.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer functions and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of equipment and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 31 of the following year, at which time the taxes will be added to the county tax rolls.

The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended March 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable value of the Township totaled \$137,919,624, on which taxes levied consisted of .8280 mills for operating purposes. This resulted in \$114,627 in operating revenue. This amount is recognized in the respective General Fund financial statements as tax revenue in addition to the current year collections on delinquent taxes.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool, except that Agency Funds investment earnings are allocated to the General Fund.

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year would be referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Generally, expenditures are not divided between years by the recording of prepaid expenses.

Restricted Assets - The revenue bonds of the Water and Sewer Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water and sewer lines), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized as part of the cost of assets under construction.

Capital assets are depreciated using the straight-line method over the following useful lives:

Water and sewer distribution systems	30 years
Land improvements	20 to 40 years
Buildings and building improvements	40 years
Office furnishings	5 to 15 years
Other tools and equipment	20 years

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. The amount of accumulated benefits is not significant and not recorded on the financial statements.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. All annual appropriations lapse at fiscal year end.

The annual budget is prepared by the Township's management and adopted by the Township board; subsequent amendments are approved by the Township board.

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is by revenue source and expenditure function. A comparison of actual results of operations to the General Fund, as adopted by the Township board, is included in the required supplemental information.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Charter Township of Lowell did not incur significant expenditures that were in excess of the amounts budgeted.

Fund Deficits - The Township has no accumulated fund deficits.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated five banks for the deposit of local unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, and the remainder of state statutory authority as listed above.

The Township's deposits and investment policies are in accordance with statutory authority.

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 447,452	\$ 696,640	\$ 41,380	\$ 1,185,472
Investments	410,028	479,450	-	889,478
Restricted assets	-	47,000	-	47,000
Total	<u>\$ 857,480</u>	<u>\$ 1,223,090</u>	<u>\$ 41,380</u>	<u>\$ 2,121,950</u>

The breakdown between deposits and investments for the Township is as follows:

	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,927,630
Investments in mutual funds, and similar vehicles	<u>194,320</u>
Total	<u>\$ 2,121,950</u>

Deposits

The bank balance of the Township's deposits is approximately \$1,968,000, of which approximately \$772,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of the cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

Investments are categorized into these three categories of credit risk:

Category I - Insured or registered, with securities held by the Township or its agent in the Township's name;

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 3 - Deposits and Investments (Continued)

Category 2 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent in the Township's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

At year end, the Township's investment balances were categorized as follows:

Investments not subject to categorization:

Bank investment pool funds	\$ 78,608
Interlocal agreement investment pool funds	<u>115,712</u>
Total primary government	<u>\$ 194,320</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The interlocal agreement investment pool is not categorized because it is not evidenced by a security that exists in physical or book entry form. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pool is the same as the value of the pool shares.

Note 4 - Receivables

Receivables as of year end for the Township's funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Water Fund	Sewer Fund	Total
Receivables:				
Accounts	\$ -	\$ 180,109	\$ 88,893	\$ 269,002
Special assessments	-	84,251	37,450	121,701
Intergovernmental	<u>55,688</u>	<u>-</u>	<u>-</u>	<u>55,688</u>
Net receivables	<u>\$ 55,688</u>	<u>\$ 264,360</u>	<u>\$ 126,343</u>	<u>\$ 446,391</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, there was no deferred revenue.

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance April 1, 2004	Additions	Balance March 31, 2005
Governmental Activities			
Capital assets not being depreciated - Land	\$ 155,596	\$ -	\$ 155,596
Capital assets being depreciated:			
Land improvements	629,754	27,843	657,597
Buildings and improvements	953,197	-	953,197
Office furnishings and equipment	200,971	4,591	205,562
Total capital assets being depreciated	1,783,922	32,434	1,816,356
Accumulated depreciation:			
Land improvements	65,934	20,239	86,173
Buildings and improvements	182,627	25,576	208,203
Office furnishings and equipment	108,649	6,827	115,476
Total accumulated depreciation	357,210	52,642	409,852
Net capital assets being depreciated	1,426,712	(20,208)	1,406,504
Net capital assets	<u>\$ 1,582,308</u>	<u>\$ (20,208)</u>	<u>\$ 1,562,100</u>

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 5 - Capital Assets (Continued)

	Balance April 1, 2004	Additions	Disposals and Adjustments	Balance March 31, 2005
Business-type Activities				
Capital assets not being depreciated - Land	\$ 36,158	\$ -	\$ -	\$ 36,158
Capital assets being depreciated - Water and sewer distribution systems	2,748,796	-	-	2,748,796
Accumulated depreciation - Water and sewer distribution systems	<u>644,106</u>	<u>92,537</u>	<u>-</u>	<u>736,643</u>
Net capital assets being depreciated	<u>2,104,690</u>	<u>(92,537)</u>	<u>-</u>	<u>2,012,153</u>
Net capital assets	<u>\$ 2,140,848</u>	<u>\$ (92,537)</u>	<u>\$ -</u>	<u>\$ 2,048,311</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 23,638
Recreation and culture	<u>29,004</u>
Total governmental activities	<u>\$ 52,642</u>
Business-type activities:	
Water	\$ 69,073
Sewer	<u>23,464</u>
Total business-type activities	<u>\$ 92,537</u>

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Advances to/from Other Funds		
General Fund	Water Fund	\$ 71,858

This balance relates to a loan taken out by the Water Fund from the General Fund when the Water Fund was formed. The loan was taken out to build a water tower. Annual payments of \$25,000 are being made. Interest is accumulated on the loan at a rate of 7 percent.

Note 7 - Long-term Debt

Included in the business-type activities are special assessment bonds that were issued during fiscal year 2002. The bonds, totaling \$449,000, were issued to offset infrastructure expenditures related to a significant capital project. Also included in the business-type activities are water supply system bonds. In connection with this bond issue, the Township has agreed to certain covenants, including the creation of liens, bond reserve, maintenance of the water system and accounting records in accordance with state and federal laws, and maintenance of insurance on all physical properties of the water system. Amortization expense of \$4,871 has been recognized in the business-type activities related to bond issuance costs amortized in the current year.

Total interest incurred for the Township for the year approximated \$39,000.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
Revenue bonds:					
1994 Water Supply System Bonds, refinanced in 2004, with interest of 5.9%	\$ 30,000	\$ -	\$ (30,000)	\$ -	\$ -
2004 Water Supply System Bonds, maturing through 2015, with interest ranging from 2% to 4% (shown net of bond issuance costs)	442,524	2,748	-	445,272	32,252
Special assessment bonds - 2002 Limited Tax Bonds, maturing through 2012, with interest ranging from 4% to 6% (shown net of bond issuance costs)	360,142	2,123	(50,000)	312,265	47,877
Total long-term-debt	<u>\$ 832,666</u>	<u>\$ 4,871</u>	<u>\$ (80,000)</u>	<u>\$ 757,537</u>	<u>\$ 80,129</u>

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bonds is as follows:

	Business-type Activities		
	Principal	Interest	Total
2006	\$ 80,129	\$ 27,972	\$ 108,101
2007	90,130	25,172	115,302
2008	80,134	22,273	102,407
2009	85,754	19,415	105,169
2010	87,254	18,044	105,298
2011-2015	<u>332,013</u>	<u>29,977</u>	<u>361,990</u>
Total	<u>\$ 755,414</u>	<u>\$ 142,853</u>	<u>\$ 898,267</u>

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Business-type Activities
Bond reserve	<u>\$ 47,000</u>

Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, and errors and omissions claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Township has not purchased commercial insurance for coverage of health claims for employees. In lieu of this, employees receive a cash benefit.

Charter Township of Lowell

Notes to Financial Statements March 31, 2005

Note 10 - Defined Contribution Program

The Township provides retirement benefits to all of its elected officials through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after three months of employment, as long as a minimum of 16 hours a week is worked. The plan is established by Internal Revenue Service Code Section 414(c)(2). Participants and the Township are required to contribute 5 percent and 10 percent, respectively, of each participant's gross wages. In addition, the Township may make discretionary contributions. Discretionary contributions were not made in the current year. The contributions and investment interest allocated to the employee's account are fully vested immediately.

The Township's total payroll during the current year was \$220,600. The current year contribution was calculated based on covered payroll of \$189,310, resulting in an employer contribution of \$15,840 and employee contributions of \$15,545.

Required Supplemental Information

Charter Township of Lowell

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 112,000	\$ 112,000	\$ 118,574	\$ 6,574
State sources	360,000	380,630	380,133	(497)
Licenses and permits	22,800	22,800	23,400	600
Interest income	22,300	22,300	28,205	5,905
Cemeteries	2,500	2,500	1,000	(1,500)
Cable TV	12,400	12,400	15,541	3,141
Miscellaneous	7,000	48,856	52,568	3,712
Total revenue	539,000	601,486	619,421	17,935
Expenditures				
General government	311,107	316,542	293,694	22,848
Public safety	123,729	136,029	81,521	54,508
Public works	53,300	66,495	72,863	(6,368)
Legislative	6,640	6,640	6,338	302
Recreation and culture	34,000	65,556	53,574	11,982
Other	10,224	10,224	-	10,224
Total expenditures	539,000	601,486	507,990	93,496
Excess of Revenue Over Expenditures	-	-	111,431	111,431
Other Financing Sources - Transfers in	-	-	42,491	42,491
Net Change in Fund Balances	-	-	153,922	153,922
Fund Balance - Beginning of year	819,663	819,663	819,663	-
Fund Balance - End of year	<u>\$ 819,663</u>	<u>\$ 819,663</u>	<u>\$ 973,585</u>	<u>\$ 153,922</u>



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May 31, 2005

Members of the Township Board
Charter Township of Lowell
2910 Alden Nash SE
Lowell, MI 49331

Dear Board Members:

We have recently completed our audit of the financial statements of the Charter Township of Lowell for the year ended March 31, 2005 and have issued our report thereon dated May 31, 2005. In addition to the audit report, we offer the following comments and recommendations for your consideration:

PREPARATION FOR THE AUDIT

It continues to be a pleasure to work with the staff at the Township. In particular, we would like to thank Linda, Leslie, and all of their staff for their efforts in preparing for the audit.

OVERVIEW OF FINANCIAL CONDITION

During the year ended March 31, 2005, the Township's financial condition improved as General Fund revenues exceeded expenditures by approximately \$150,000. As a result, fund balance at March 31, 2005 increased to approximately \$974,000.

STATE SHARED REVENUE

State shared revenue accounts for approximately 58 percent of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been less than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out.

STATE SHARED REVENUE (continued)

A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was approved by the Michigan legislature and signed by the Governor. The State has closed in 2004 fiscal year without the need for a supplemental appropriation to balance the budget. While early indications were that the State would experience a \$100 million shortfall in General Fund General Purpose revenue for its year ended September 30, 2004, the State luckily made up the difference with some unplanned Federal revenue and other monies.

The Governor recently unveiled her Executive Order to remedy a \$375 million shortfall in the State's fiscal year 2004/2005 budget identified in the December 2004. It proposed no further cuts to revenue sharing. This is very good news for local government, particularly those units with a June year end, as making budgetary adjustments with just about 4 months remaining in their fiscal year would have proven difficult for many governmental units. However, the Legislature rejected the Executive Order and negotiations continue.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor presented her FY 2005/2006 budget with a "shortfall" (defined as the difference between projected revenue for FY 05/06 and the current cost of government services) of \$773 million. Revenue sharing has been budgeted at approximately \$1.1 billion, which is basically the FY 04/05 funding level. What does this mean? It appears to mean that no further reductions to revenue sharing below the current FY 04/05 funding level is being proposed. Because the existing statutory formula is being deviated from, the revenue sharing act will require an amendment.

PROPERTY TAX MATTERS

Since our last audit, there have been a number of bills involving property taxes that impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.
- HB 6017 was introduced to address the inconsistent treatment of assessing commercial property using the occupancy method. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This treatment is a result of what is commonly referred to as the "WPW Case" involving the Township of Troy.
- HB 4649 was passed by the House and would allow for local governments to pass a resolution exempting new construction on homestead property used as a living area from property taxes (subject to certain limitations) in all or just certain areas of the local jurisdiction.
- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination; require examiners to be employees of a local government; and make payments to examiners on a per parcel basis.

- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as "homestead" property. The bill also proposes to not allow the taxable value of property to "uncap" when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.

DEPOSIT AND INVESTMENT RISK DISCLOSURES

The Governmental Accounting Standards Board has released Statement Number 40, Deposit and Investment Risk Disclosures. This pronouncement is effective for the Township's March 31, 2006 year-end financial statement and amends the Deposit and Investment Risk disclosures previously prescribed by GASB 3. Under GASB 40, the Township must disclose applicable investment risks due to custodial credit risk (originally required by GASB 3) as well as new disclosures for concentration credit risk, interest rate fluctuation risk, and foreign currency risk. In addition, the Township must disclose its investment policy addressing each applicable risk. We encourage you to review your investment policies and update as necessary, to ensure the policies adequately address the risks associated with each type of investment made by the Township. We will be happy to assist you with the specifics of this new standard.

ACH TRANSACTIONS

Electronic payments of public funds are required for some federally mandated transactions of public funds, and electronic payments have become a commonly accepted practice by banks and other financial institutions. Public Act 738 of 2002, effective December 30, 2002, authorizes townships to make electronic transactions involving public funds by electronic payment, debit, or credit transfer processed through an automated clearing house. PA 738 authorizes a township treasurer to enter into an ACH arrangement for a national and governmental organization that has authority to process electronic payments (ACH), including, but not limited to, the national automated clearing house association and the federal reserve system.

The Township has only had a few ACH transfers in the last few years, but they do occur. The Township should develop a control system and resolution in regard to these electronic transactions as technology continues to evolve and ACH transfers become more common.

We would like to thank the Members of the Township Board for the opportunity to serve as the auditors for the Township. We would also like to express our appreciation for the courtesy and cooperation extended to us during our audit. As always, please feel free to call with questions regarding the information above or that which is presented in the general purpose financial statements.

Very truly yours,

PLANTE & MORAN, PLLC



Mary Schafer



Karen A. Courtade